

## Message Text

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ACTION ARA-14

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NSAE-00 SIL-01 USIA-06 A-01 OPR-02 PER-01 AID-05

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 5029

INFO AMEMBASSY SANTIAGO

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E.O. 11652: N/A

TAGS: ELAB, SHUM, AR

SUBJECT: ACDE STUDIES ON REAL WAGES IN ARGENTINA

REF: 77 BUENOS AIRES A148

1. THE CHRISTIAN ASSOCIATION OF BUSINESS EXECUTIVES (ACDE), A SOCIALLY CONSCIOUS BUSINESS ORGANIZATION, HAS COMPLETED AT LEAST TWO STUDIES ON REAL WAGES IN ARGENTINA. THE FIRST STUDY WAS BASED ON INFORMATION SUPPLIED BY 30 COMPANIES HAVING A TOTAL OF AROUND 40,000 EMPLOYEES (10,000 WHITE COLLAR AND 30,000 BLUE COLLAR) AND COVERS REAL WAGES PAID DURING THE JANUARY 1976 - MARCH 1977 PERIOD. THE SECOND STUDY HAD 49 COMPANIES IN THE SAMPLE WITH OVER 57,000 EMPLOYEES (ALL BLUE COLLAR WORKERS) AND PROVIDES DETAILED DATA ON REAL WAGES DURING THE PERIOD JUNE 1973 THROUGH SEPTEMBER 1977, WITH LESS EXTENSIVE INFORMATION ON THE MONTHS OCTOBER THROUGH DECEMBER 1977. THE RESEARCHERS WHO PREPARED THE STUDIES READILY ADMIT THAT THE STUDIES HAVE CERTAIN TECHNICAL DRAWBACKS AND WARN AGAINST GENERALIZATIONS REGARDING WAGE TRENDS IN THE WHOLE ECONOMY BASED ON THESE SAMPLES. IN THE ABSENCE OF RELIABLE OFFICIAL STATISTICS, HOWEVER, THE EMBASSY BELIEVES THAT

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THE STUDIES PREPARED BY ACDE AND THE ONES BY FIEL, A REPUTABLE PRIVATE ECONOMIC RESEARCH INSTITUTION (REF. A-148), ARE THE BEST INDICATORS AVAILABLE ON THE REAL WAGE TRENDS IN ARGENTINA UNDER THE VIDELA GOVERNMENT. THE MAIN FINDINGS OF THE ACDE STUDIES ARE SUMMARIZED BELOW:

2. FIRST ACDE STUDY: (A) THE AVERAGE REAL WAGES, INCLUDING

ALL KINDS OF UNDER-THE-TABLE PAYMENTS AND BONUSES,  
DECLINED 18.2 PERCENT BETWEEN DECEMBER 1975 AND MARCH 1977.  
(B) THE DROP IN REAL WAGES OF THE LOWEST PAID BLUE COLLAR  
WORKERS WAS GREATER (-26.5 PERCENT) THAN THAT OF THE  
HIGHER PAID SKILLED BLUE COLLAR WORKERS (-13.1 PERCENT).  
(C) IN THE CASE OF THE WHITE COLLAR WORKERS, THOSE AT THE  
BOTTOM OF THE WAGE SCALE LOST 20.2 PERCENT OF THEIR PURCHASING  
POWER WHEREAS THOSE AT THE TOP ONLY 16.4 PERCENT.

COMMENT: (A) THE STUDY CLEARLY INDICATES THAT THE  
DECLINE IN REAL WAGES OF THE WORKERS INCLUDED IN THE  
SAMPLE WAS NOT AS GREAT AS THAT SHOWN IN OFFICIAL  
STATISTICS WHICH TAKE INTO ACCOUNT ONLY THE BASIC  
CONTRACT WAGE (THIS IS ESSENTIALLY THE MINIMUM WAGE SET  
BY THE GOVERNMENT FOR SPECIFIC JOBS). (B) DURING THE  
PERONIST PERIOD, THE GOVERNMENT WAGE POLICY SPECIFICALLY  
PROMOTED A FLATTENING OF THE WAGE SCALES, WITH THE  
END RESULT BEING THAT MANAGEMENT AND SKILLED WORKERS MADE  
LITTLE MORE THAN THEIR SUBORDINATES. THE WAGE POLICY OF THE  
CURRENT GOVERNMENT IS TO REVERSE THIS PROCESS BY CONSCIOUSLY  
INCREASING THE SPREAD BETWEEN WAGES OF THOSE AT THE TOP  
AND THOSE AT THE BOTTOM OF ANY ORGANIZATIONAL HIERARCHY.  
THE RATIONALE IS THAT, UNLESS MANAGEMENT AND SKILLED  
WORKERS ARE COMPENSATED CONSIDERABLY MORE, THERE IS  
LITTLE ECONOMIC INCENTIVE FOR WORKERS TO ASSUME HIGHER  
RESPONSIBILITIES AND TO MAKE AN EFFORT TO UPGRADE THEIR  
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SKILLS. THE WAGE TRENDS SHOWN BY THE WORKERS INCLUDED IN  
THE SAMPLE REFLECT THE EFFECTS OF THIS GOVERNMENT WAGE  
POLICY

3. SECOND ACDE STUDY: (A) THE AVERAGE REAL WAGE, WITH A  
BASE OF JUNE 1973 EQUAL TO 100, HAD DROPPED TO 83.2 BY  
JUNE 1976. WITH UPS AND DOWN IN BETWEEN, THE AVERAGE  
REAL WAGE STOOD AT 83.6 IN DECEMBER 1977 -- OR SLIGHTLY  
HIGHER THAN IN JUNE 1976. (B) THE PERCENTAGE DIFFERENCE  
BETWEEN THE AVERAGE REAL BASIC CONTRACT WAGE AND THE AVERAGE  
REAL WAGE INCREASED SUBSTANTIALLY DURING THE PERIOD:  
50.1 PERCENT IN JUNE 1973, 76.8 PERCENT IN JUNE, 1976,  
AND 214 PERCENT IN DECEMBER 1977. (C) THE LARGER FIRMS  
PAID SUBSTANTIALLY HIGHER SALARIES AND HAD A WIDER SPREAD  
BETWEEN THE TOP AND BOTTOM SALARY LEVELS THAN SMALLER  
FIRMS. (D) WAGES PAID BY FIRMS IN THE INTERIOR OF THE  
COUNTRY WERE ONLY SLIGHTLY LOWER THAN THOSE IN BUENOS AIRES.

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COMMENT: (A) THE SECOND ACDE STUDY SHOWS THAT THE AVERAGE REAL WAGE LEVELS WERE APPROXIMATELY THE SAME IN JUNE 1976 AND DECEMBER 1977, THE EARLIEST AND LATEST STATISTICS REFLECTING THE VIDEAL GOVERNMENT'S WAGE POLICY. IN GENERAL, THEREFORE, IT WOULD APPEAR THAT ALLEGATIONS OF A CONTINUED AND GENERALIZED DETERIORATION OF REAL WAGES UNDER THE CURRENT GOVERNMENT ARE UNFOUNDED. THE AVERAGE, OF COURSE, MASKS DIFFERENCES AMONG SECTORS AND CATEGORIES OF WORKERS: E.G. THE GOVERNMENT CIVIL SERVICE AND DEPRESSED INDUSTRIES SUCH AS TEXTILES, AS WELL AS THOSE AT THE LOWER END OF THE WORK STRUCTURE FARED LESS WELL THAN THE AVERAGE. IN ADDITION, SINCE INFLATION IS CONTINUOUS AND WAGE ADJUSTMENTS PERIODIC, INFLATION ERODES WAGES BETWEEN ADJUSTMENTS. THEREFORE, EVEN THOUGH IT WOULD APPEAR THAT THE JUNE 1976 AND DECEMBER 1977 AVERAGE WAGE LEVELS ARE ABOUT THE SAME, IT IS ALSO EVIDENT THAT THERE WERE CUMULATIVE LOSSES OF REAL WAGES BETWEEN THESE TWO DATES. (B) THE INCREASING DIFFERENCE BETWEEN THE AVERAGE REAL BASIC CONTRACT WAGE AND AVERAGE REAL WAGE PAID SUGGESTS THAT OFFICIAL STATISTICS BASED ONLY ON THE BASIC CONTRACT WAGE ARE GROSSLY MISLEADING INDICATORS OF REAL WAGE TRENDS. UNFORTUNATELY, CRITICS OF THE GOVERNMENT'S WAGE POLICY AND SOMETIMES EVEN REPUTABLE PUBLICATIONS SUCH AS THE LONDON

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ECONOMIST (FEB 18 - 24) HAVE USED THESE OFFICIAL STATISTICS TO SHOW THAT REAL WAGES HAVE DECLINED DRASTICALLY - WHICH IN FACT THEY HAVE NOT.

4. OTHER OBSERVATIONS: REAL WAGES TRENDS ONLY TELL ONE PART OF THE STORY. IF ONE WERE TO LOOK AT THE BROADER CONCEPT OF THE INCOME (I.E. TO INCLUDE SUCH NON-WAGE INCOME AS RENT; FARM PRODUCTION - MANY ARGENTINES HAVE SMALL PLOTS; MOONLIGHTING BY MECHANICS, PLUMBERS, CARPENTERS, LAWYERS, AND PROFESSORS; AND INTEREST), THE IMPACT OF THE VIDELA GOVERNMENT'S ECONOMIC POLICIES BECOMES QUITE COMPLEX. IN CORRECTING SOME OF THE ECONOMIC DISTORTIONS INHERITED FROM THE PERONIST REGIME, SOME OF THE FOLLOWING REDISTRIBUTIONS OF INCOME HAVE TAKEN PLACE: FROM THE INDUSTRIAL TO THE AGRICULTURAL SECTORS; FROM DEBTORS TO CREDITORS; AND FROM TENANTS TO LANDLORDS. IN ADDITION, AT LEAST IN DIRECT FORM, THERE HAS BEEN A TRANSFER OF INCOME FROM TAXPAYERS TO THE GOVERNMENT AND FROM USERS OF PUBLIC SERVICES TO THE PUBLIC ENTERPRISES. (THIS TRANSFER IS SOME WHAT OBSCURED, HOWEVER, BY FACT THAT THE PUBLIC FORMERLY HAD ITS INCOME TRANSFERRED TO THE PUBLIC SECTOR INDIRECTLY THROUGH THE INCREASED INFLATION RESULTING FROM THE HIGH LEVEL OF THE PUBLIC SECTOR DIFICIT.) AS A RESULT, THE DROP IN INCOME FROM WAGES COULD BE COMPENSATED FOR OR ALTERNATIVELY AGGRAVATED BY ONE'S OVERALL ECONOMIC PROFILE. FOR EXAMPLE, A WAGE EARNER-TENANT-DEBTOR WOULD BE MUCH WORSE OFF THAN A WAGE EARNER-LANDLORD-CREDITOR.

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